

Abusive Offshore Tax Schemes

Presenter's Name
Contact Information
Date

Abusive Offshore Tax Schemes

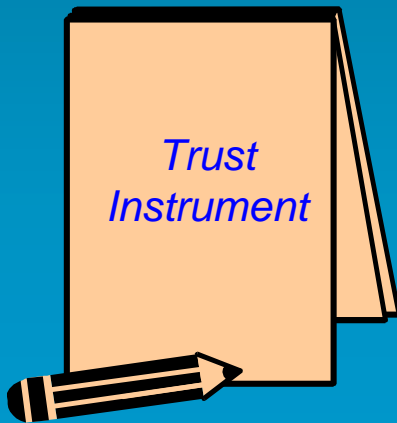
While legitimate offshore transactions exist, the IRS is concerned about those taxpayers who exploit secrecy laws of offshore jurisdictions in an attempt to conceal assets and income which are subject to tax by the United States.

What Does “Offshore” Mean?

“Offshore” is generally used to mean a jurisdiction (i.e. tax haven) that offers financial secrecy laws and tax benefits in an effort to attract investments from outside its borders.

Does This Only Involve Foreign Trusts?

NO!



Various Entities Used In Abusive Offshore Schemes

- May or may not be legitimate:
 - Foreign Trusts
 - Foreign Corporations
 - Offshore Partnerships, LLC's and LLP's
 - International Business Companies (IBC's)
 - Offshore Private Annuities

Various Entities Used In Abusive Offshore Schemes (Cont'd)

- Personal Investment Companies
- Captive Insurance Companies
- Offshore Bank Accounts and Credit Cards
- Private Banking (U.S. and Offshore)
- Related Party Loans

Abusive Offshore Arrangements

Generally employ:

- Complex international sections of the IR Code
- Multiple “offshore” jurisdictions
- Reliance on the secrecy laws of offshore jurisdictions
- Multiple entities

Abusive Offshore Arrangements

- Assets are secreted offshore in the name of an entity other than individual ownership (typically an IBC with nominee ownership or a foreign trust), and are
- Subsequently repatriated using a variety of covert and anonymous methods, such as an offshore credit/debit card.

Form Over Substance

These abusive schemes usually create structures that:

- *in form*, make it appear a nonresident alien or foreign entity is the owner of assets and income

WHEN

- *in fact and substance*, the true owner is a U. S. taxpayer.

TAX 101 – Who Is Taxed on What

- “U.S. Persons” – taxed on their worldwide income
- “U.S. Persons” – includes citizens and residents of the United States, as well as domestic corporations, trusts, etc.

Tax 101 (Cont'd)

- Foreign persons are generally taxed by the U.S. only on income originating in the U. S. (or “U.S. Source Income”).
- Nonresident aliens generally pay no U.S. tax on most capital gains, portfolio interest, and interest income from deposits with banks.

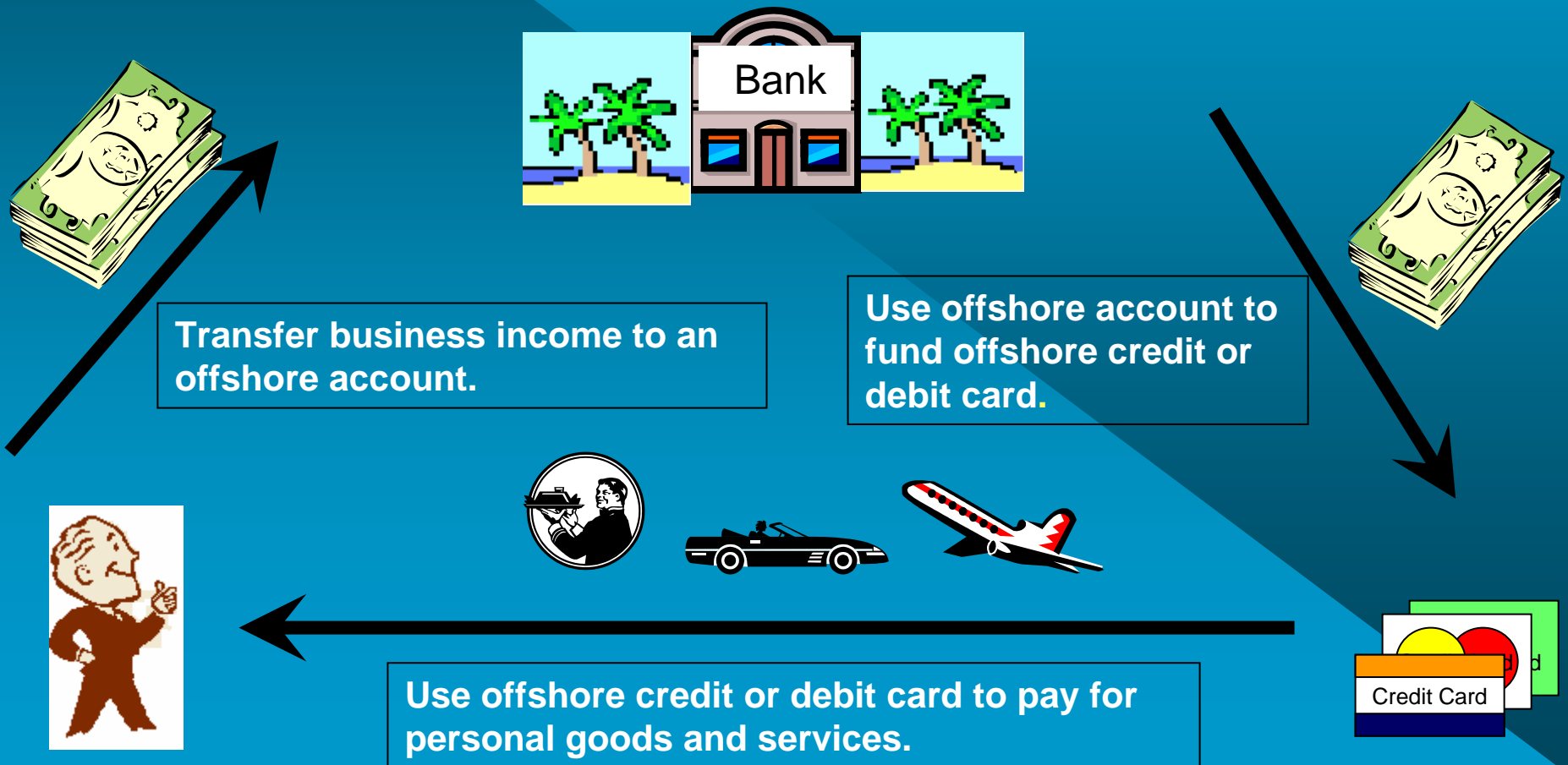
Why Go Offshore

- Generally, people involved in abusive schemes go “offshore” to:
 - Exploit the way the U.S. taxes foreign persons as compared to the way the U.S. taxes U. S. persons and
 - Exploit the bank, commercial, and financial secrecy laws of these “tax haven” jurisdictions.

Four Basic Components to an Offshore Scheme

1. Devise an overall offshore plan
2. Covertly transfer funds and assets offshore
3. Control the transferred funds and assets
4. Access the offshore funds

HOW DOES IT WORK?



Ways of Repatriating Funds

- Credit cards which draw on the taxpayer's offshore account
- Loans from mysterious offshore lenders
- Loans from domestic lenders in amounts beyond the taxpayer's borrowing power (may be secured by offsetting deposits of offshore accounts)

Ways of Repatriating Funds (Cont'd)

- Use of property titled to offshore entities at zero or below market rental
- Bogus transactions transferring funds to or from offshore entities, such as sales of property to offshore entities in jurisdictions where it is unlikely the property will actually be used or sold

The Promoter's Pitch



“Place Your
Assets Offshore
And Avoid Paying
Taxes!”

The Promoter's Pitch

- Traditional tax advisors – attorneys, CPAs, return preparers – cannot be trusted.
- Their "system" is a legal secret of the wealthy that traditional advisors are reluctant to share.

REMEMBER!



Despite being hidden or disguised, the income and assets of U.S. citizens, residents, and corporations are still subject to U.S. tax.

Need Additional Information? Contact Phone Number

If you have specific questions on a tax scheme or wish to report possible schemes, call the IRS at:

1-866-775-7474

or email IRS at: irs.tax.shelter.hotline@irs.gov

Need Additional Information? Through the Web

- Visit Criminal Investigation's Tax Fraud Alert page at: www.ustreas.gov/irs/ci/
- Visit IRS's web site at: www.irs.gov

Need Additional Information? Through IRS Publications

Both found on www.irs.gov:

- ✓ Pub. 334, *Tax Guide for Small Business*
- ✓ Pub. 17, *Your Federal Income Tax for Individuals*

Questions?

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